

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Pewamo</b>	County <b>Ionia</b>
Audit Date <b>3/15/05</b>	Opinion Date <b>4/27/05</b>	Date Accountant Report Submitted to State: <b>8/17/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

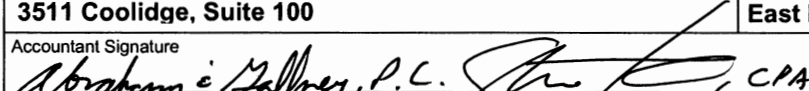
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C</b>			
Street Address <b>3511 Coolidge, Suite 100</b>		City <b>East Lansing</b>	State <b>MI</b>
		ZIP <b>48823</b>	
Accountant Signature 		Date <b>8/16/05</b>	

**Village of Pewamo  
Ionia County, Michigan**

**FINANCIAL STATEMENTS**

**March 15, 2005**

Village of Pewamo  
Ionia County, Michigan

March 15, 2005

VILLAGE COUNCIL AND ADMINISTRATION

Mr. William Thelen	President
Mr. Mike Smith	President Pro-tem
Mr. William Heckman	Trustee
Mr. Mike Miller	Trustee
Mr. William Schafer	Trustee
Mr. Doug LaVoie	Trustee
Mrs. Patricia Distel	Trustee
Mrs. Michelle Spitzley	Clerk
Mrs. Pam Stump	Treasurer

Village of Pewamo

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March 15, 2005

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Principals

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Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

Member:  
American Institute of Certified  
Public Accountants  
and  
Michigan Association of  
Certified Public Accountants

Karen A. Roka, CPA  
James A. Huguelet, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA  
Kurt M. Lemmen, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable President and  
Members of the Village Council  
Village of Pewamo  
Pewamo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of and for the year ended March 15, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Pewamo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of March 15, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of March 16, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Village of Pewamo's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

April 27, 2005

## **Village of Pewamo**

### **Management's Discussion and Analysis**

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#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a discussion and analysis of Village of Pewamo's (the Village's) financial performance and position, providing an overview of the activities for the year ended March 15, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. Fiscal year 2005 represents the first year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior as required by GASB.

#### **FINANCIAL HIGHLIGHTS**

##### **Government-wide:**

- Total net assets were \$2,085,761.
- Governmental activities net assets were \$367,691.
- Business-type activity net assets were \$1,718,070.

##### **Fund Level:**

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$194,266 with \$64,756 being designated, or otherwise earmarked for specific purposes.
- The General Fund realized \$33,207 less in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$17,259 more than appropriated.
- Overall, the General Fund balance increased by \$28,634 to \$118,045 with \$71,089 being undesignated and available for general purposes.

##### **Capital and Long-term Debt Activities:**

- The primary government issued no new debt issues for the year.
- The Village remains well below its authorized legal debt limit with no debt outstanding.
- The total additions to the capital asset schedule for the primary government was \$113,706 and were additions to the water and sewer systems, and other items.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

## **Village of Pewamo**

### **Management's Discussion and Analysis**

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#### **Government-wide Financial Statements (Reporting the Village as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during fiscal year 2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village wide elected official operations are reported under these activities.
- ***Business-type Activities*** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund are examples of these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.



## **Village of Pewamo**

### **Management's Discussion and Analysis**

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#### **Fund Financial Statements (Reporting the Village's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Pewamo include the General Fund, the Major Street Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Village includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- ***Governmental Funds*** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- ***Proprietary Funds*** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund.

#### **Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 10 of this report.

#### **Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

**Village of Pewamo**  
**Management's Discussion and Analysis**

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**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

**FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE**

As previously stated, Village of Pewamo's combined net assets were \$2,085,761 at the end of this year's operations. The net assets of the governmental activities were \$367,691; the business type activities were \$1,718,070.

**Net Assets as of March 15, 2005**

	<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total Primary Government</u></b>
Current Assets	\$ 261,176	\$ 383,544	\$ 644,720
Noncurrent Assets	<u>113,425</u>	<u>1,336,606</u>	<u>1,450,031</u>
Total Assets	374,601	1,720,150	2,094,751
Current Liabilities	<u>6,910</u>	<u>2,080</u>	<u>8,990</u>
Net Assets			
Invested in Capital Assets	173,425	1,276,606	1,450,031
Restricted	75,216	-	75,216
Unrestricted	<u>119,050</u>	<u>441,464</u>	<u>560,514</u>
<b>Total Net Assets</b>	<b><u>\$ 367,691</u></b>	<b><u>\$ 1,718,070</u></b>	<b><u>\$ 2,085,761</u></b>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's primary government net assets changed during the fiscal year:

**Changes in Net Assets for the Fiscal Year Ending March 15, 2005**

	<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$ 46,765	\$ 77,050	\$ 123,815
Grants and Contributions	56,243	-	56,243
General Revenues			
Property Taxes	107,908	-	107,908
State Shared Revenue	58,557	-	58,557
Investment Earnings	3,620	2,288	5,908
Miscellaneous	<u>3,666</u>	<u>-</u>	<u>3,666</u>
<b>Total Revenues</b>	<b>276,759</b>	<b>79,338</b>	<b>356,097</b>

**Village of Pewamo**  
**Management's Discussion and Analysis**

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	<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
<b>Expenses</b>			
General Government	\$ 42,872	\$ -	\$ 42,872
Public Safety	9,308	-	9,308
Public Works	182,973	-	182,973
Health and Welfare	5,485	-	5,485
Community and Econ. Dev.	825	-	825
Recreation and Cultural	7,093	-	7,093
Other	<u>18,459</u>	<u>95,042</u>	<u>113,501</u>
<b>Total Expenses</b>	<b><u>267,015</u></b>	<b><u>95,042</u></b>	<b><u>362,057</u></b>
<b>Increase (Decrease) in Net Assets before transfers</b>	<b>9,744</b>	<b>( 15,704 )</b>	<b>( 5,960 )</b>
Transfers in (out)	<u>( 10,000 )</u>	<u>10,000</u>	<u>-0-</u>
<b>Decrease in Net Assets</b>	<b>( 256 )</b>	<b>( 5,704 )</b>	<b>( 5,960 )</b>
Net Assets - Beginning	<u>367,947</u>	<u>1,723,774</u>	<u>2,091,721</u>
<b>Net Assets - Ending</b>	<b><u>\$ 367,691</u></b>	<b><u>\$ 1,718,070</u></b>	<b><u>\$ 2,085,761</u></b>

**Governmental Activities:**

The result of 2005 governmental activity was a decrease of (\$256) in net assets to \$367,691. Of the total governmental activities' net assets, \$173,425 is invested in capital assets; \$75,216 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the Village government. The balance of \$119,050 is listed as unrestricted, having no legal commitment.

**Revenues:**

The three largest revenue categories were property taxes at 39%, grants and contributions at 20%, and State shared revenue at 21%. The Village levied one property tax millage for the year ended March 15, 2005, for general government operations at 12.0000 mills, which is not assigned to any particular activity. Second largest was State funding through the State revenue sharing program. The third largest source of revenue was grants and contributions. An example of this would be Act 51 monies received in the Major and Local Streets Funds.

**Expenses:**

Public works is the largest governmental activity, expending approximately 66% of the governmental activities total and includes the Public Works department as well as public street maintenance and improvement activities. General Government is the second largest area, expending approximately 15%.

**Business-type Activities:**

Net assets in business-type activities decreased by \$5,704 during fiscal year 2005. Of the business-type activities' net assets, \$1,276,606 is invested in capital assets. The balance of \$441,464 is listed as unrestricted, having no legal commitment.

## **Village of Pewamo**

### **Management's Discussion and Analysis**

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#### **FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS**

As the Village completed fiscal year 2005, its governmental funds reported *combined* fund balances of \$194,266. This is a net increase of \$17,990. The net changes are summarized in the following chart:

	<b>General Fund</b>	<b>Major Street</b>	<b>Nonmajor Governmental Funds</b>
<b>Fund Balance 3/15/04</b>	\$ 89,411	\$ 71,676	\$ 15,189
<b>Fund Balance 3/15/05</b>	\$ 118,045	\$ 47,688	\$ 28,533
<b>Net Change</b>	\$ 28,634	\$ ( 23,988 )	\$ 13,344

#### **General Fund:**

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of March 15, 2005, the General Fund reported a fund balance of \$118,045. This amount is an increase of \$28,634 from the fund balance of \$89,411 reported as of March 15, 2004. The 2005 original budget called for a \$79,100 addition to fund balance. \$46,956 of fund balance is reported as reserved or designated.

The General Fund fiscal year 2005 revenues exceeded expenditures and other financing uses by \$28,634.

#### **General Fund Budgetary Highlights:**

The Village of Pewamo's budget is a dynamic document. Although adopted prior to March 16 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$223,543, \$33,207 below the final amended budget. The final amended and original budgets were the same and were 13% different than final actual.

Actual Village expenditures and other financing uses for fiscal year 2005 were \$17,259 over budget. General Fund actual expenditures and other financing uses came in at \$194,909 and the final budgeted amount was \$177,650, which was a 9.7% difference.

#### **Major Street Fund:**

As of March 15, 2005, the Major Street Fund reported a fund balance of \$47,688, a decrease of \$23,988 from the prior year. The total fund balance is undesignated/unreserved. There was no material changes noted between the original and final amended budgeted revenues or expenditures. There were also no material differences between final amended revenues and actual amounts. The total fund expenditures and other financing uses were greater than budgeted expenditures and other financing uses by \$9,704. This was mainly due to the operating transfers out that occurred that was not budgeted for in fiscal year 2005.

**Village of Pewamo**  
**Management's Discussion and Analysis**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of year 2005, the Village had invested \$1,450,031, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,323,958 for the primary government. Depreciation charges for the fiscal year totaled \$69,239 for the primary government. Additional information related to capital assets is detailed in Note E of the Financial Statements. Net book value of capital assets at March 15, 2005 was as follows:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>		<b>Total</b>
<b>Land</b>	\$ 44,447	\$ -		<b>\$ 44,447</b>
<b>Land improvements, net</b>	48,750	-		<b>48,750</b>
<b>Buildings, net</b>	33,042	-		<b>33,042</b>
<b>Vehicles and equipment, net</b>	47,186	31,247		<b>78,433</b>
<b>Sewer system, net</b>	-	948,789		<b>948,789</b>
<b>Water system, net</b>	-	296,570		<b>296,570</b>
<b>Capital assets, net</b>	<b>\$ 173,425</b>	<b>\$1,276,606</b>		<b>\$ 1,450,031</b>

**VILLAGE OF PEWAMO GOVERNMENT ECONOMIC OUTLOOK:**

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been cut more than once and any further cuts would affect the services that we provide to the citizens of the Village of Pewamo.

Other factors that the Village is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates, decreasing by nearly 80% over the past four years.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the Budget for fiscal year 2005. A surplus of \$9,870 of the Village's General Fund fund balance was estimated for fiscal year 2005 but any changes in the above noted factors or other unforeseen circumstances could change that amount. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

**CONTACTING THE VILLAGE**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 593-2372.

## **BASIC FINANCIAL STATEMENTS**

Village of Pewamo

STATEMENT OF NET ASSETS

March 15, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 144,856	\$ 195,948	\$ 340,804
Investments	46,956	224,630	271,586
Receivables	9,173	17,977	27,150
Due from other governmental units	5,180	-	5,180
Internal balances	55,011	(55,011)	-0-
Total current assets	261,176	383,544	644,720
Noncurrent assets			
Internal balances	(60,000)	60,000	-0-
Capital assets, net	173,425	1,276,606	1,450,031
Total noncurrent assets	113,425	1,336,606	1,450,031
<b>TOTAL ASSETS</b>	374,601	1,720,150	2,094,751
<b>LIABILITIES</b>			
Accounts payable	2,529	2,080	4,609
Accrued wages	3,670	-	3,670
Other accrued liabilities	711	-	711
<b>TOTAL LIABILITIES</b>	6,910	2,080	8,990
<b>NET ASSETS</b>			
Invested in capital assets	173,425	1,276,606	1,450,031
Restricted for streets and highways	75,216	-	75,216
Unrestricted	119,050	441,464	560,514
<b>TOTAL NET ASSETS</b>	<u>\$ 367,691</u>	<u>\$ 1,718,070</u>	<u>\$ 2,085,761</u>

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF ACTIVITIES

Year Ended March 15, 2005

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government				Total
	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities	
<b>Governmental activities</b>					
General government	\$ 42,872	\$ 41,479	\$ 963	\$ (430)	\$ (430)
Public safety	9,308	-	-	(9,308)	(9,308)
Public works	182,973	-	51,617	(131,356)	(131,356)
Health and welfare	5,485	4,986	-	(499)	(499)
Community and economic development	825	-	-	(825)	(825)
Recreation and cultural	7,093	300	3,663	(3,130)	(3,130)
Other	18,459	-	-	(18,459)	(18,459)
<b>Total governmental activities</b>	<b>267,015</b>	<b>46,765</b>	<b>56,243</b>	<b>(164,007)</b>	<b>(164,007)</b>
<b>Business-type activities</b>					
Sewer	57,117	30,867	-	-0-	(26,250)
Water	37,925	46,183	-	-0-	8,258
<b>Total business-type activities</b>	<b>95,042</b>	<b>77,050</b>	<b>-0-</b>	<b>-0-</b>	<b>(17,992)</b>
<b>Total</b>	<b>\$ 362,057</b>	<b>\$ 123,815</b>	<b>\$ 56,243</b>	<b>(164,007)</b>	<b>(181,999)</b>
<b>General revenues</b>					
Property taxes				107,908	107,908
State shared revenue				58,557	58,557
Investment earnings				3,620	5,908
Miscellaneous				3,666	3,666
Transfers - net				(10,000)	-0-
<b>Total general revenues</b>				<b>163,751</b>	<b>176,039</b>
<b>Change in net assets</b>					
				(256)	(5,960)
<b>Net assets, beginning of the year</b>				<b>367,947</b>	<b>2,091,055</b>
<b>Prior period adjustment</b>				<b>-</b>	<b>666</b>
<b>Net assets, end of the year</b>				<b>\$ 367,691</b>	<b>\$ 2,085,761</b>

See accompanying notes to financial statements.



Village of Pewamo

GOVERNMENTAL FUNDS BALANCE SHEET

March 15, 2005

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 72,574	\$ 54,032	\$ 18,250	\$ 144,856
Investments	46,956	-	-	46,956
Receivables				
Taxes	7,647	-	-	7,647
Accounts	1,250	-	125	1,375
Interest	151	-	-	151
Due from other governmental units	-	4,010	1,170	5,180
Due from other funds	55,995	-	9,356	65,351
<b>TOTAL ASSETS</b>	<b>\$ 184,573</b>	<b>\$ 58,042</b>	<b>\$ 28,901</b>	<b>\$ 271,516</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 2,147	\$ 195	\$ 187	\$ 2,529
Accrued wages	3,670	-	-	3,670
Other accrued liabilities	711	-	-	711
Due to other funds	-	10,159	181	10,340
Advance from other funds	60,000	-	-	60,000
<b>TOTAL LIABILITIES</b>	<b>66,528</b>	<b>10,354</b>	<b>368</b>	<b>77,250</b>
<b>FUND BALANCES</b>				
Designated for				
Subsequent year's expenditures	-	-	17,800	17,800
Equipment replacement	46,956	-	-	46,956
Unreserved				
Undesignated, reported in				
General fund	71,089	-	-	71,089
Special revenue funds	-	47,688	10,733	58,421
<b>TOTAL FUND BALANCES</b>	<b>118,045</b>	<b>47,688</b>	<b>28,533</b>	<b>194,266</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 184,573</b>	<b>\$ 58,042</b>	<b>\$ 28,901</b>	<b>\$ 271,516</b>

See accompanying notes to financial statements.

Village of Pewamo

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

March 15, 2005

**Total fund balance - governmental funds** \$ 194,266

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 571,697	
Accumulated depreciation is	<u>(398,272)</u>	
Capital assets, net		<u>173,425</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 367,691</u></u>

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended March 15, 2005

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 107,908	\$ -	\$ -	\$ 107,908
Intergovernmental	63,183	39,917	11,700	114,800
Charges for services	32,378	-	300	32,678
Interest and rents	17,111	499	97	17,707
Other	2,963	-	703	3,666
<b>TOTAL REVENUES</b>	<b>223,543</b>	<b>40,416</b>	<b>12,800</b>	<b>276,759</b>
<b>EXPENDITURES</b>				
Current				
General government	30,901	-	-	30,901
Public safety	7,908	-	-	7,908
Public works	117,988	55,048	8,812	181,848
Health and welfare	5,485	-	-	5,485
Community and economic development	825	-	-	825
Recreation and cultural	3,343	-	-	3,343
Other	18,459	-	-	18,459
<b>TOTAL EXPENDITURES</b>	<b>184,909</b>	<b>55,048</b>	<b>8,812</b>	<b>248,769</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>38,634</b>	<b>(14,632)</b>	<b>3,988</b>	<b>27,990</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers out	(10,000)	(9,356)	-	(19,356)
Operating transfers in	-	-	9,356	9,356
<b>Total other financing sources (uses)</b>	<b>(10,000)</b>	<b>(9,356)</b>	<b>9,356</b>	<b>(10,000)</b>
<b>EXCESS OF REVENUES AND OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>28,634</b>	<b>(23,988)</b>	<b>13,344</b>	<b>17,990</b>
Fund balances, beginning of year	89,411	71,676	15,189	176,276
Fund balances, end of year	<u>\$ 118,045</u>	<u>\$ 47,688</u>	<u>\$ 28,533</u>	<u>\$ 194,266</u>

See accompanying notes to financial statements.

Village of Pewamo

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 15, 2005

**Net change in fund balances - total governmental funds** \$ 17,990

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ -	
Depreciation expense	<u>(18,246)</u>	
Excess of depreciation expense over capital outlay		<u>(18,246)</u>

**Change in net assets of governmental activities** \$ (256)

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 15, 2005

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 191,417	\$ 4,531	\$ 195,948
Investments	206,630	18,000	224,630
Receivables			
Accounts	7,140	10,620	17,760
Interest	217	-	217
Total current assets	405,404	33,151	438,555
Noncurrent assets			
Advance to other funds	56,000	4,000	60,000
Capital assets, net	980,036	296,570	1,276,606
Total noncurrent assets	1,036,036	300,570	1,336,606
TOTAL ASSETS	1,441,440	333,721	1,775,161
LIABILITIES			
Current liabilities			
Accounts payable	1,030	1,050	2,080
Due to other funds	39,401	15,610	55,011
TOTAL LIABILITIES	40,431	16,660	57,091
NET ASSETS			
Invested in capital assets	980,036	296,570	1,276,606
Unrestricted	420,973	20,491	441,464
TOTAL NET ASSETS	\$ 1,401,009	\$ 317,061	\$ 1,718,070

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS

Year Ended March 15, 2005

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 30,867	\$ 46,183	\$ 77,050
OPERATING EXPENSES			
Labor charges	8,700	8,700	17,400
Contractual services	5,765	4,510	10,275
Utilities	1,881	3,515	5,396
Repairs and maintenance	1,168	3,577	4,745
Equipment rental charges	2,352	1,930	4,282
Water/Sewer sample testing	-	1,286	1,286
Other	574	92	666
Depreciation	36,677	14,315	50,992
TOTAL OPERATING EXPENSES	57,117	37,925	95,042
OPERATING INCOME (LOSS)	(26,250)	8,258	(17,992)
NONOPERATING REVENUES			
Interest revenue	2,118	170	2,288
INCOME (LOSS) BEFORE TRANSFERS	(24,132)	8,428	(15,704)
TRANSFERS			
Transfers in	-	10,000	10,000
CHANGE IN NET ASSETS	(24,132)	18,428	(5,704)
Net assets, beginning of year	1,425,141	297,967	1,723,108
Prior period adjustment	-	666	666
Net assets, end of year	\$ 1,401,009	\$ 317,061	\$ 1,718,070

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended March 15, 2005

	Business-type Activities		
	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 72,321	\$ 46,993	\$ 119,314
Cash paid for labor charges	(7,823)	(15,582)	(23,405)
Cash paid to suppliers	(11,740)	(14,622)	(26,362)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>52,758</b>	<b>16,789</b>	<b>69,547</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers in	-	10,000	10,000
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>			
Capital acquisitions	(82,893)	(30,813)	(113,706)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments	(206,630)	(18,000)	(224,630)
Maturities of investments	414,150	18,000	432,150
Interest revenue	2,118	170	2,288
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>209,638</b>	<b>170</b>	<b>209,808</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>179,503</b>	<b>(3,854)</b>	<b>175,649</b>
Restated Cash and cash equivalents, beginning of year	11,914	8,385	20,299
Cash and cash equivalents, end of year	<u>\$ 191,417</u>	<u>\$ 4,531</u>	<u>\$ 195,948</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (26,250)	\$ 8,258	\$ (17,992)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	36,677	14,315	50,992
Decrease in interest receivable	1,574	-	1,574
(Increase) in accounts receivable	(120)	(180)	(300)
Decrease in due from other funds	990	990	1,980
Increase in accounts payable	877	288	1,165
Increase (decrease) in due to other funds	39,010	(6,882)	32,128
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 52,758</b>	<b>\$ 16,789</b>	<b>\$ 69,547</b>

See accompanying notes to financial statements.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Pewamo is located in Ionia County, Michigan and has a population of approximately 520. The Village of Pewamo operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and four (4) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Pewamo (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the general purpose financial statements of the Village of Pewamo contain all the funds and account groups controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.



NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- d. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**4. Basis of Accounting - continued**

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**5. Budgets and Budgetary Accounting**

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to March 16, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 16. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 16, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 15, 2005 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts, certificates of deposit with an original maturity of 90 days or less, and mutual funds. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated market value.

7. Property Tax

The Village of Pewamo bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Pewamo on July 1 and are payable without penalty through September 1. All real property taxes not paid to the Village by September 15 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 15 mills (\$15 per \$1,000 of assessed valuation) for general governmental services. For the year ended March 15, 2005, the Village levied 12.00 mills for general governmental services. The total taxable value for the 2004 levy for property within the Village was \$8,355,621.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for administrative services and equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Advances to Other Funds

Long-term advances from some funds to other funds are made to finance new construction.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Structures and improvements	20 - 40 years
Machinery, furniture, and equipment	5 - 30 years
Vehicles	5 years

11. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

12. Accounting Change

As of March 16, 2004, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Village's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings, bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of March 15, 2005, the carrying amounts and bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
<u>Cash</u>		
Money market checking	\$ 340,804	\$ 332,547
<u>Investments</u>		
Certificates of deposit	<u>271,586</u>	<u>272,347</u>
	<u>\$ 612,390</u>	<u>\$ 604,894</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of March 15, 2005, the Village accounts were insured by the FDIC for \$300,000, and the amount of \$304,894 was uninsured and uncollateralized.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at March 15, 2005:

Due to General Fund from:	
Major Street Fund	\$ 803
Water System Fund	15,610
Sewer System Fund	39,401
Nonmajor governmental funds	<u>181</u>
	<u>\$ 55,995</u>
Due to nonmajor governmental funds from:	
Major Street Fund	<u>\$ 9,356</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: ADVANCES RECEIVABLE AND PAYABLE**

The following schedule details advances receivable and payable between the funds at March 15, 2005:

Advance from General Fund to:	
Sewer system	\$ 56,000
Water system	<u>4,000</u>
	<u>\$ 60,000</u>

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfers to Water system fund from:

General fund	<u>\$ 10,000</u>
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Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended March 15, 2005 was as follows:

	<u>Restated Balance Mar. 16, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 15, 2005</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 44,447	\$ -	\$ -	\$ 44,447
Capital Assets Being Depreciated				
Land improvements	229,500	-	-	229,500
Buildings and improvements	104,250	-	-	104,250
Vehicles and equipment	<u>193,500</u>	<u>-</u>	<u>-</u>	<u>193,500</u>
Subtotal at historical cost	527,250	-0-	-0-	527,250
Less accumulated depreciation for:				
Land improvements	( 177,000 )	( 3,750 )	-	( 180,750 )
Buildings and improvements	( 68,683 )	( 2,525 )	-	( 71,208 )
Vehicles and equipment	<u>( 134,343 )</u>	<u>( 11,971 )</u>	<u>-</u>	<u>( 146,314 )</u>
Subtotal at historical cost	<u>( 380,026 )</u>	<u>( 18,246 )</u>	<u>-0-</u>	<u>( 398,272 )</u>
Net capital assets being depreciated	<u>147,224</u>	<u>( 18,246 )</u>	<u>-0-</u>	<u>128,978</u>
Capital assets, net	<u>\$ 191,671</u>	<u>\$ ( 18,246 )</u>	<u>\$ -0-</u>	<u>\$ 173,425</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 11,971
Public safety	1,400
Public works	1,125
Recreation and cultural	<u>3,750</u>
Total	<u>\$ 18,246</u>

	<u>Restated Balance Mar. 16, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 15, 2005</u>
<b>Business-type activities</b>				
Utility plant, wells, and mains	\$ 471,635	\$ 30,813	\$ -	\$ 502,448
Sewer system	1,582,689	57,898	-	1,640,587
Equipment	<u>34,292</u>	<u>24,995</u>	<u>-</u>	<u>59,287</u>
Subtotal	2,088,616	113,706	-0-	2,202,322

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE F: CAPITAL ASSETS - CONTINUED**

Less accumulated depreciation				
Utility plant, wells, and mains	( 191,562 )	( 14,316 )	-	( 205,878 )
Sewer system	( 659,565 )	( 32,233 )	-	( 691,798 )
Equipment	( 23,596 )	( 4,444 )	-	( 28,040 )
Subtotal	( 874,723 )	( 50,993 )	-0-	( 925,716 )
Capital assets, net	<u>\$ 1,213,893</u>	<u>\$ 62,713</u>	<u>\$ -0-</u>	<u>\$ 1,276,606</u>

**NOTE G: RISK MANAGEMENT**

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

**NOTE H: RETIREMENT PLAN**

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires a 1.7% contribution from the employees, and the Village contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended March 15, 2005 the Village's annual pension cost of \$6,698 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is ten (10) years.



Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2005

**NOTE H: RETIREMENT PLAN - CONTINUED**

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 23,486	\$ 28,348	\$ 37,538
Actuarial accrued liability (AAL) (entry age)	50,354	59,498	71,115
Unfunded (overfunded) AAL	26,868	31,150	33,577
Funded ratio	47 %	48 %	53 %
Covered payroll	38,472	41,422	62,651
UAAL as a percentage of covered payroll	70 %	75 %	54 %
Annual pension cost	2,522	3,223	6,698
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

**NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level.

During the year ended March 15, 2005, the Village incurred expenditures in the General and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Public Safety			
Fire Department	\$ 4,500	\$ 7,908	\$ 3,408
Public Works			
Sidewalk construction	5,000	18,763	13,763
Health and Welfare			
Ambulance	400	5,485	5,085
Community and Economic Development			
Zoning Board	700	825	125
Recreation and Cultural			
Parks and recreation	2,500	3,343	843
Other			
Fringe benefits	12,000	18,459	6,459
Operating transfers out	-	10,000	10,000
Special Revenue Fund			
Major Street	54,700	64,404	9,704

Village of Pewamo  
NOTES TO FINANCIAL STATEMENTS  
March 15, 2005

**NOTE J: FUND EQUITY DESIGNATIONS**

Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following are fund balance designations as of March 15, 2005:

General Fund	
Designated for equipment replacement	<u>\$ 46,956</u>
Special Revenue Funds	
Local Street	
Designated for subsequent year's expenditures	<u>\$ 17,800</u>

**NOTE K: RESTRICTED NET ASSETS**

Restrictions on net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source preclude their use for unrestricted purposes. The following is the various net asset restrictions as of March 15, 2005:

**PRIMARY GOVERNMENT**

Governmental activities	
Restricted for	
Public works	
Streets and highways	<u>\$ 75,216</u>

**NOTE L: PRIOR PERIOD ADJUSTMENTS**

The following prior period adjustment was made during the year, which was the result of the correction of accounting errors. This adjustment was reported as a change to beginning net assets. The effect on operations and other affected balances for the current and prior period is as follows:

	<u>2005</u>	March 15, <u>2004</u>	<u>Description</u>
<b>PRIMARY GOVERNMENT</b>			
Business-type activities			
Cash and cash equivalents	\$ -	\$ 666	Correct understatement
Net assets - beginning	666	-	of cash

## **REQUIRED SUPPLEMENTARY INFORMATION**

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 15, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes				
General property tax	\$ 101,000	\$ 101,000	\$ 107,908	\$ 6,908
Intergovernmental				
State shared revenue				
Revenue sharing funds	50,000	50,000	58,557	8,557
Liquor license fees	1,000	1,000	963	(37)
Recreation grant	-	-	3,663	3,663
Total intergovernmental	51,000	51,000	63,183	12,183
Charges for services				
Ambulance runs	6,000	6,000	4,986	(1,014)
Sidewalk permits	-	-	2,698	2,698
Grave openings	150	150	-	(150)
Zoning permits	-	-	125	125
Administrative charges	58,000	58,000	24,569	(33,431)
Total charges for services	64,150	64,150	32,378	(31,772)
Interest and rents				
Interest	1,100	1,100	3,024	1,924
Rent - equipment	38,000	38,000	14,087	(23,913)
Total interest and rents	39,100	39,100	17,111	(21,989)
Other revenue				
Cable TV franchise fees	1,400	1,400	2,550	1,150
Miscellaneous	100	100	413	313
Total other revenue	1,500	1,500	2,963	1,463
<b>TOTAL REVENUES</b>	256,750	256,750	223,543	(33,207)
<b>EXPENDITURES</b>				
General government				
Legislative	5,000	5,000	4,756	244
Executive	2,000	2,000	2,000	-0-
Elections	500	500	80	420
Financial administration	25,150	25,150	24,065	1,085
Hall and grounds	1,000	1,000	-	1,000
Total general government	33,650	33,650	30,901	2,749
Public safety				
Police department	1,000	1,000	-	1,000
Fire department	4,500	4,500	7,908	(3,408)
Total public safety	5,500	5,500	7,908	(2,408)

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 15, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public works				
Department of public works	94,500	94,500	87,593	6,907
Sidewalk construction	5,000	5,000	18,763	(13,763)
Storm drain construction	15,000	15,000	4,582	10,418
Street lighting	8,400	8,400	7,050	1,350
Total public works	122,900	122,900	117,988	4,912
Health and welfare				
Ambulance	400	400	5,485	(5,085)
Community and economic development				
Zoning board	700	700	825	(125)
Recreation and cultural				
Parks and recreation	2,500	2,500	3,343	(843)
Other				
Fringe benefits	12,000	12,000	18,459	(6,459)
TOTAL EXPENDITURES	177,650	177,650	184,909	(7,259)
EXCESS OF REVENUES OVER EXPENDITURES	79,100	79,100	38,634	(40,466)
OTHER FINANCING USES				
Operating transfers out	-	-	(10,000)	(10,000)
EXCESS REVENUEUS OVER EXPENDITURES AND OTHER FINANCING USES	79,100	79,100	28,634	(30,466)
Fund balance, beginning of year	89,411	89,411	89,411	-0-
Fund balance, end of year	168,511	168,511	118,045	(30,466)

Village of Pewamo

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 15, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ 36,000	\$ 36,000	\$ 39,917	\$ 3,917
Interest	100	100	499	399
TOTAL REVENUES	36,100	36,100	40,416	4,316
EXPENDITURES				
Public works				
Street maintenance				
Salaries and wages	4,000	4,000	4,007	(7)
Equipment rental	9,000	9,000	5,701	3,299
Repairs and maintenance	1,300	1,300	522	778
Total street maintenance	14,300	14,300	10,230	4,070
Construction				
Contractual services	40,000	40,000	44,472	(4,472)
Traffic service maintenance				
Utilities	100	100	8	92
Winter maintenance				
Supplies	300	300	338	(38)
TOTAL EXPENDITURES	54,700	54,700	55,048	(348)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(18,600)	(18,600)	(14,632)	3,968
OTHER FINANCING (USES)				
Operating transfers out	-	-	(9,356)	(9,356)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(18,600)	(18,600)	(23,988)	(5,388)
Fund balance, beginning of year	71,676	71,676	71,676	-0-
Fund balance, end of year	\$ 53,076	\$ 53,076	\$ 47,688	\$ (5,388)

Village of Pewamo

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

March 15, 2005

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Softball	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 17,245	\$ 1,005	\$ 18,250
Accounts receivable	125	-	125
Due from other governmental entities	1,170	-	1,170
Due from other funds	9,356	-	9,356
<b>TOTAL ASSETS</b>	<b>\$ 27,896</b>	<b>\$ 1,005</b>	<b>\$ 28,901</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 187	\$ -	\$ 187
Due to other funds	181	-	181
<b>TOTAL LIABILITIES</b>	<b>368</b>	<b>-0-</b>	<b>368</b>
<b>Fund balances</b>			
Designated for			
Subsequent year's expenditures	17,800	-	17,800
Unreserved			
Undesignated, reported in			
Special revenue funds	9,728	1,005	10,733
<b>TOTAL FUND BALANCES</b>	<b>27,528</b>	<b>1,005</b>	<b>28,533</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 27,896</b>	<b>\$ 1,005</b>	<b>\$ 28,901</b>

Village of Pewamo

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended March 15, 2005

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Softball	
REVENUES			
Intergovernmental	\$ 11,700	\$ -	\$ 11,700
Charges for services	-	300	300
Interest	95	2	97
Other	-	703	703
TOTAL REVENUES	11,795	1,005	12,800
EXPENDITURES			
Public works	8,812	-	8,812
EXCESS OF REVENUES OVER EXPENDITURES	2,983	1,005	3,988
OTHER FINANCING SOURCES			
Operating transfers in	9,356	-	9,356
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	12,339	1,005	13,344
Fund balances, beginning of year	15,189	-	15,189
Fund balances, end of year	<u>\$ 27,528</u>	<u>\$ 1,005</u>	<u>\$ 28,533</u>



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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**MANAGEMENT LETTER**

To the Honorable President and  
Members of the Village Council  
Village of Pewamo  
Pewamo, Michigan

As you know, we have recently completed our audit of the records of the Village of Pewamo, Michigan as of and for the year ended March 15, 2005. In connection with the audit, we feel that certain a change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management. These weaknesses are not considered reportable conditions in relation to the general purpose financial statements of the Village of Pewamo, Michigan but may be areas of possible improvement.

1. The journal entry process should be evaluated and modified.

During our analysis of the journal entry process it was determined that there was no indication on the journal entry form the individual(s) that was proposing, approving and then subsequently posting the entry to the system. Also, it was noted that very little supporting documentation was present within the journal entry binders as back up to support the entries being posted.

We suggest the Village implement procedures to provide adequate documentation on who proposes, approves, and posts entries into the system. All journal entries should also be supported by detailed documentation as support to justify all postings.

2. The Village should review the current rate structure or other financial aspects of the Sewer Fund to reduce or eliminate future losses.

During our review of the Sewer Fund results of operations, it was noted the fund again had a loss this year. This fund has had a loss in several of the previous years. This issue was noted and reported in our audit comments last year.

The Enterprise Funds' intent is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

We suggest the Village review the sewer rates being charged to determine if they are sufficient to support the operations of this fund. The Village may need to evaluate rates or examine the possibilities of reducing expenses in this fund.

3. The Village should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Village may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, utility billing, etc.). This issue was noted and reported in our audit comments last year.

While this is a common occurrence in small organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Village Council provide a greater review and supervision of employee functions and procedures.

4. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Village exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. It was also noted that not all Special Revenue Funds had budgets adopted for 2005.

The Michigan Public Act 621 of 1978, as amended, provides that the Village shall not incur expenditures in excess of the amounts appropriated. The Village is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the Village adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

5. The Village should establish a dollar threshold to record significant assets purchased.

This year the Village has implemented Governmental Accounting Standards Board Statement 34 (GASB 34), which requires (among other things) that capital assets be recorded and depreciated in a new set of full-accrual basis "government-wide" financial statements. During the implementation of this new reporting model, we noted that the Village does not have a policy in place to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

We suggest the Village adopt a capitalization threshold policy that would define assets that are to be included in the financial statements as capital assets. At the Village's option, this policy may be applied retroactively to the current asset list or it may be applied for future purchases only.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements, and this report does not affect our report on the general purpose financial statements dated April 27, 2005.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Pewamo and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation to us during our audit. We are available to discuss any issues with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

April 27, 2005